Shared Resources Arrangements: An Alternative to Consolidation

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Nearly half of small business lending and a meaningful amount of consumer lending is conducted through community-based banks. These institutions currently face competitive pressures to remain viable. State bank supervisors, who regulate these institutions, have a duty to ensure the broad, safe access to credit within their jurisdictions. To this end, these supervisors have been responding to bank requests to enter into shared resource arrangements with like banks, as a means to improve operating efficiency, maintain regulatory compliance, and expand customer access to products and services. These shared resource arrangements often come in the form of contractual agreements, jointly owned operating subsidiaries, and non-profit entities. By sharing certain resources with comparable institutions, community banks may be able to realize the benefits that come with a larger size and scale, yet preserve their core character, function, and independence. This white paper explains the rationale and typical examples for shared resource arrangements, while identifying the flexibilities and restrictions within current regulation.

Key Findings

- Shared resource arrangements may achieve (or exceed) the same regulatory cost savings or economies of scale as consolidation.
- Shared resource arrangements dedicated to BSA/AML compliance could provide community banks more latitude to attract and acquire skilled BSA compliance professionals.
- Shared resources often come in the form of contractual agreements, jointly-owned operating subsidiaries, and non-profit entities.
- State regulators believe that, with the proper controls and ongoing oversight, shared resources may be a viable component to a community bank’s overall strategic objectives to remain an independent provider of financial services in the local market.

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